

Message Text

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ACTION EB-08

INFO OCT-01 EA-10 NEA-11 IO-13 ISO-00 L-03 FRB-03
OMB-01 ITC-01 SP-02 ICA-11 AGRE-00 AID-05 CIAE-00
COME-00 INR-10 LAB-04 NSAE-00 OIC-02 SIL-01
STR-07 TRSE-00 CEA-01 SS-15 EUR-12 NSC-05 /126 W
-----086268 231049Z /10

R 230835Z MAY 78

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 4398

INFO USMISSION GENEVA

AMEMBASSY BANGKOK

AMEMBASSY COLOMBO

AMEMBASSY JAKARTA

AMEMBASSY SINGAPORE

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E. O. 11652: N/A

TAGS: UNCTAD

SUBJ: UNCTAD-SPONSORED FILEDL WORKSHOP AND PRODUCER/
CONSUMER CONSULTATIONS ON RUBBER MAY 8-19

1. SUMMARY. FOLLOWING VISITS TO THAILAND, INDONESIA, SINGAPORE AND MALAYSIA TO STUDY NATURAL RUBBER PRODUCTION, PROCESSING AND MARKETING OPERATIONS, REPRESENTATIVES OF 16 CONSUMING NATIONS HELD DISCUSSIONS WITH PRODUCERS IN KUALA LUMPUR ON THE ELEMENTS OF A RUBBER STABILIZATION AGREEMENT. THE CONSULTATIONS FOCUSED ON A REVISED PRODUCER PROPOSAL PRESENTED TO CONSUMERS DURING THE TRIP. CONSUMERS SOUGHT CLARIFICATION AND MADE PRELIMINARY COMMENTS ON THE PRODUCER DRAFT. DISSENSION AMONG PRODUCERS WAS HIGHLY EVIDENT PARTICULARLY REFLECTING INDONESIA'S
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UNWILLINGNESS TO PROVIDE SUFFICIENT FINANCING FOR THE AGREEMENT. THERE WAS ALSO EVIDENCE OF DIFFERENCES AMONG CONSUMERS ON KEY ELEMENTS OF THE DRAFT PROPOSAL. END SUMMARY

2. BUFFER STOCK SIZE AND COMPOSITION - THE PRODUCER PROPOSAL EFFECTIVELY REDUCED THE SIZE OF THE DIRECTLY

CONTRIBUTED BUFFER STOCK FROM THE ORIGINALLY PROPOSED 400,000 TONS TO 300,000, ALTHOUGH IT ALLOWED THAT AN EXTRA 10,000 TONS WOULD BE PROVIDED BY THE COMMON FUND WHEN IT IS ESTABLISHED. IT CALLED FOR AN INITIAL CONTRIBUTION OF 100,000 TONS WITH THE REMAINING 200,000 TO BE CALLED AS REQUIRED. COMMERCIAL BORROWING WOULD BE PERMITTED TO SUPPLEMENT THE BUFFER STOCKS'S CAPABILITY.

3. THE US REP QUESTIONED THIS REDUCTION, NOTING THAT OUR PRELIMINARY ECONOMETRIC ANALYSIS AND PREVIOUS PRODUCER WORK POINTED TO THE NEED FOR A LARGER STOCK. THE JAPANESE REP SAID THAT WHILE 400,000 TONS WAS ACCEPTABLE, A PRIVATE JAPANESE STUDY SUGGESTED THT 200,000 WOULD BE SUFFICIENT. THE E/C COMMISSION REP REIVATELY INFORMED US THAT THE COMMUNITY WAS NOW THINKING IN TERMS OF A 3-400,000 TON STOCK.

4. THE PRODUCER PORPOSAL CALLED FOR THE USE OF RSS 1 AS THE INDICATOR PRICE FOR A BUFFER STOCK COMPOSED OF SEVERAL GRADES OF NATURAL RUBBER. THE US NOTED THE POTENTIAL PROBLEMS WITH THIS MECHANISM, PARTICULARLY IN VIEW OF THE RAPIDLY CHANGING GRADE STRUCTURE OF PRODUCTION. HE AGAIN SUGGESTED THE POSSIBILITY OF A COMPOSITE INDICATOR PRICE. THE LIMITED OFFICIAL USE

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EEC PRIVATELY APPEARS TO FAVOR USING THE RSS 1 PRICE. THE PRODUCERS SAID THEY WERE FLEXIBLE ON THIS ISSUE AND PREPARED TO CONSIDER INDICATOR PRICE PROPOSALS OTHER THAN THOSE COMPLETELY BASED ON RSS 1.

5. SUPPLY CONTROLS- THE PRODUCER PORPOSAL CONTINUES TO RELY ON EXPORT CONTROLS TO ENFORCE THE FLOOR PRICE AND PROVIDES THAT THE EXPENSE INCURRED BY PRODUCING COUNTRIES IN IMPLEMENTING THESE CONTROLS BE SHARED BY CONSUMERS. THE US REP REITERATED OUR FIRM OBJECTION TO SUCH A PROVISION. JAPAN INDICATED GENERAL SUPPORT FOR EXPORT CONTROLS AS A CONTINGENCY MEASURE, BUT OPPOSED ANY CONSUMER FINANCING TO IMPLEMENT SUCH MEASURES. THE EC REP SIMPLY QUESTIONED PRODUCERS ON THE OPERATIONS OF THIS PROVISION.

6. PRODUCERS RESPONDED THAT EXPORT CONTROLS WERE NEEDED AS A CONTINGENCY MEASURE AND COULD BE IMPLEMENTED BY ACCUMULATING STOCKS, CONTROLLING PRODUCTION AND/OR REQUIRING DEALER/EXPORTERS TO INCREASE STOCKHOLDINGS. THE US REP TOOK THE OPPORTUNITY TO INDICATE OPPOSITION TO EXPORT TAX POLICIES

OF MAJOR PRODUCERS WHICH ACT TO RESTRICT SUPPLIES
AND, DUE TO THEIR PROGRESSIVE NATURE, WORK AT
CROSS PURPOSES TO THE OBJECTIVES OF THE PRICE STABILIZATION.

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7. OTHER MEASURES - THE PRODUCER DRAFT PROPOSES
CONSUMER COUNTRY FINANCING FOR REPLANTING, PROCESSING
AND OTHER UNSPECIFIED PROGRAMS IN PRODUCING COUNTRIES
IN ORDER TO ASSURE THE AVAILABILITY OF SUPPLY AND
THE IMPROVED QUALITY OF NR EXPORTS. IN ADDITION,
A SPECIAL FUND IS TO BE ESTABLISHED FOR FINANCING
EXTANT PRODUCER RESEARCH ORGANIZATIONS.

8. THESE PROVISIONS DREW CONSIDERABLE CRITICISM
FROM CONSUMING COUNTRIES, PRIMARILY ON THE
GROUNDS THAT NEITHER SPECIFIC PROJECTS NOR THE AMOUNT
OF REQUIRED FINANCING HAD BEEN PROPOSED. IN RESPONSE,
THE INDONESIAN REP WAS EVEN MORE VAGUE, SUGGESTING
ONLY THAT THERE MAY BE A NEED FOR CONSUMER COUNTRY
FINANCING IF WORLD BANK AND OTHER SOURCES PROVED
INADEQUATE. THE THAI REP INCREASED THE ANTE BY

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INDICATING SUCH CONSUMER COUNTRY FINANCING WAS NEEDED FOR BASIC INFRASTRUCTURE INVESTMENT, SUCH AS PORT FACILITIES, WHILE RECOGNIZING NEED FOR EXPANDED PRODUCER COUNTRY FINANCING TO ASSURE ADEQUATE SUPPLIES AND INDICATING A WILLINGNESS TO CONSIDER WAYS TO ASSURE ADEQUATE FINANCING, THE US REP SUGGESTED THAT PRODUCERS THINK IN MORE MODEST AND SPECIFIC TERMS ON THESE ISSUES. OTHER CONSUMERS FOLLOWED THIS LINE, BUT JAPAN INDICATED IN THE CONSUMER CAUCUS THAT IT WAS UNLIKELY TO CONTRIBUTE FOR THESE MEASURES.

9. BUFFER STOCK FINANCING-THE REVISED PRODUCER PROPOSAL RETREATS FROM THE PRINCIPLE OF EQUAL PRODUCER-CONSUMER FINANCING AGREED AT THE THIRD UNCTAD PREPARATORY MEETING IN FEBRUARY. IT CALLS FOR THE INITIAL 100,000 TONS IN DIRECT GOVERNMENT CONTRIBUTIONS DIVIDED EQUALLY AMONG ALL COUNTRIES PARTICIPATING IN THE ICA, 200,000 TONS ALLOCATED ACCORDING TO VOTING SHARES, AND 100,000 TONS FINANCED BY THE COMMON FUND. COMMERCIAL BORROWING ON THE BASIS OF STOCK WARRANTS IS ALSO TO BE USED TO INCREASE THE STOCKING CAPACITY.

10. THE US ARGUED AGAINST THE RATIONALE OF EQUAL CONTRIBUTIONS AND POINTED OUT THAT SINCE THE NUMBER OF CONSUMING COUNTRIES WOULD EXCEED PRODUCERS IN THE AGREEMENT, CONSUMERS WOULD BEAR A LARGER FINANCIAL RESPONSIBILITY FOR THE FIRST 100,000 TONS. THIS REVISION FROM FINANCING BASED ON TRADE, AND THE QUESTIONABLE PROVISION FOR COMMON FUND FINANCING, SEEM AIMED AT RECONCILING THE 400,000 TON CONTRIBUTIONS PRODUCERS BELIEVE ARE REQUIRED TO STABILIZE NR PRICES WITH AN UNWILLINGNESS OF

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INDONESIA TO COMMIT ITS REQUIRED SHARE.

11. HOWEVER, PRODUCERS TOOK A MORE ACCOMMODATING STANCE ON THE TIMING AND FORM OF CONTRIBUTIONS TO THE ICA. THEIR PROPOSAL NOW CALLS FOR AN INITIAL PAYMENT OF ONLY THE FIRST 100,000 TONS, WITH THE REMAINDER TO BE CALLED UP BY THE COUNCIL WHEN NECESSARY TO SUPPORT BUYING OPERATIONS. PRODUCERS AGREED THAT INITIAL CONTRIBUTIONS WOULD LIKELY

STAND IDLE SINCE NR PRICES ARE WIDELY FORECASTED
TO RISE OVER THE MEDIUM TERM AND SEEMED WILLING TO
CONSIDER A FURTHER REDUCTION IN UP-FRONT MONEY. ON
THE BASIS OF PRICE FORECASTS AND THE EED FOR
FLEXIBLE PURCHASING DECISIONS BY THE BUFFER
STOCK MANAGER, THEY ALSO AGREED THAT CONTRIBUTIONS
WOULD LIKELY NEED TO BE IN CASH, NOT KIND,
THOUGH THEIR PROPOSAL SPECIFIED BOTH.
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